

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 EB-07 COME-00 TRSE-00 AGRE-00
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R 172330Z DEC 76
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 5962
AMEMBASSY BRASILIA
AMEMBASSY BOGOTA
AMEMBASSY QUITO
AMEMBASSY SAN SALVADOR
AMEMBASSY TEGUCIGALPA
AMEMBASSY MANAGUA
AMEMBASSY MEXICO
AMEMBASSY SANTO DOMINGO
AMEMBASSY GUATEMALA
AMEMBASSY LONDON

UNCLAS SAN JOSE 5946

E.O. 11652: N/A
TAGS: ETRD, EAGR, CS
SUBJECT: COFFEE PRICES

REF: (A) STATE 034044
(B) SAN JOSE 1018
(C) STATE 302301

1. ANSWERS TO QUESTIONS RAISED IN PARAGRAPH 2 OF
REF C FOLLOW:

A. CURRENT INTERNAL RETAIL PRICES OF COFFEE
UNCHANGED FROM INFO REPORTED IN REF B, I.E. MAXIMUM
PRICE OF ROASTED/GROUND COFFEE CONTAINING TEN PERCENT
SUGAR IS FIXED BY THE GOVERNMENT AT U.S. 58.5 CENTS
PER POUND.

B. PRICE PAID BY DOMESTIC ROASTER FOR GREEN
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COFFEE NOW AT U.S. 32.6 CENTS PER POUND.

C. EXPORT TAXES ARE AS FOLLOWS: (1) TEN PERCENT
AD VALOREM -- PAID BY PRODUCER; (2) EIGHT PERCENT AD
VALOREM AND U.S. 45 CENTS PER HUNDREDWEIGHT -- PAID
BY EXPORTER. THE COFFEE OFFICE REQUIRES THAT
DISTRIBUTION OF THE 1976/77 COFFEE BE MADE AS FOLLOWS:

(1) 87 PERCENT FOR EXPORT; (2) 11 PERCENT FOR LOCAL CONSUMPTION; (3) 2 PERCENT HELD FOR CONTINGENCY PURPOSES.

D. AS EXPLAINED IN REF B, FINAL PAYMENTS MADE TO PRODUCERS BY THE MILLS ARE BASED ON EXPORT PRICES WITH FINAL PAYMENT NOT MADE UNTIL END OF COFFEE YEAR; HOWEVER, PRODUCERS ARE GIVEN ADVANCES BY THE MILLS THROUGHOUT THE YEAR. FINAL PAYMENTS JUST MADE FOR 1975/76 COFFEE RANGED AS FOLLOWS (1974/75 RANGE SHOWN IN PARENTHESIS): U.S. \$53.86 TO \$81.26 PER HUNDRED-WEIGHT EQUIVALENT (\$35.25 TO \$44.50) OF RIPE COFFEE AND \$44.96 TO \$54.56 CWT (\$24.82 TO \$28.69) OF UNRIPE COFFEE. MILL ADVANCES TO PRODUCERS FOR 1976/77 COFFEE NOW AVERAGING \$80.00/CWT AND ARE FORECAST BY OFICINA DEL CAFE TO GO TO \$117.00/CWT BEFORE END OF SEASON. AS OF NOVEMBER 30, LESS THAN TWENTY PERCENT OF THE 1976/77 CROP HAD BEEN HARVESTED.

E. GOCR CONTINUES TO BE OPPOSED TO EXPANDING COFFEE AREA BUT HAS ENCOURAGED HIGHER PRODUCTION AND EXPORTS WITH ANNOUNCEMENT OF FOLLOWING ACTIONS AND PROGRAMS:

(1) REJECTION OF PROPOSAL TO INCREASE THE EXPORT TAX FOR 1976/77 COFFEE. THE PROPOSAL WOULD HAVE REPLACED THE 8 PERCENT TAX WITH A VARIABLE RATE RANGING UPWARD TO 18 PERCENT AD VALOREM FOR SALES OVER \$1.50/LB. TAX REMAINS AT 8 PERCENT;

(2) INCREASE IN PICKERS' PAY TO U.S. 88 CENTS/BASKET FROM 53 CENTS/BASKET;

(3) FIVE YEAR CENTRAL BANK CREDIT OF U.S. \$7.0 MILLION AIMED AT INCREASING YIELDS IN LOW YIELD UNCLASSIFIED

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AREAS OF THE COUNTRY;

(4) ONE YEAR CENTRAL BANK CREDIT OF U.S. \$1.2 MILLION FOR WORKING CAPITAL USE BY SMALL GROWERS;

(5) CENTRAL BANK CREDIT POLICY THAT FAVORS SMALL PRODUCERS WITH MEASURE PROVIDING FINANCING TO COVER HARVESTING EXPENSES FOR EACH ONE HUNDREDWEIGHT EQUIVALENT OF COFFEE AS FOLLOWS: SMALL PRODUCERS AUTHORIZED U.S. \$11.71 WHILE BIG PRODUCERS AUTHORIZED \$9.37;

(6) FOUR YEAR CENTRAL BANK CREDIT OF \$14.3 MILLION WITH FIRST YEAR CREDIT OF \$3.3 MILLION TO APPLY TO INCREASED FERTILIZER APPLICATION AND RENOVATION AND REPLANTING OF OLD COFFEE TRACTS;

(7) SUBSIDY BY OFICINA DEL CAFE OF SALES OF COFFEE SEEDS FOR PLANTING AT A PRICE \$1.00/LB BELOW COST.

2. COMMENTS: DUE TO THE RECORD HIGH INTERNATIONAL

PRICES FOR GREEN COFFEE, COSTA RICAN GROWERS
WILL CONTINUE TO TAKE ADVANTAGE OF THE
GOVERNMENT ASSISTANCE PROGRAMS AIMED AT HIGHER
PRODUCTION. WITH THE DISCOVERY OF COFFEE LEAF RUST
IN NICARAGUA, THE GOCR WILL INTENSIFY THE SEARCH
HERE FOR RUST, TIGHTEN BORDER CONTROL MEASURES, AND
INCREASE ITS STUDY OF THE DISEASE.

THE GOCR IS ALSO CONCERNED WITH THE INCREASED
LIQUIDITY THAT WILL RESULT FROM INCREASED COFFEE
EARNINGS AND WHICH COULD LEAD TO A RESURGENCE OF
INFLATION. THUS, THE CENTRAL BANK INTENDS TO
STERILIZE PART OF THE HIGH COFFEE EARNINGS BY SELLING
COFFEE BONDS AT VERY FAVORABLE RATES OF INTEREST,
PERHAPS AS HIGH AS 11 PERCENT. THE BONDS WOULD
MATURE IN FIVE YEARS AND WOULD NOT BE REDEEMABLE
PREMATURELY UNLESS THE PRICE OF COFFEE DROPPED
TO A LOW LEVEL. IN ADDITION, THE CENTRAL BANK
INTENDS TO RESTRICT CREDIT TO COFFEE GROWERS.
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THE RATIONALE IS THAT IN A BOOM YEAR THE GROWERS
CAN FINANCE WHATEVER IMPROVEMENTS THEY WISH TO
MAKE FROM THEIR EXPORT EARNINGS.
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